LANDER UNIVERSITY

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2001

State of South Carolina

Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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November 2, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

This report on the audit of the financial statements of Lander University for the fiscal year ended June 30, 2001, was issued by Elliott Davis, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

LANDER UNIVERSITY
GREENWOOD, SOUTH CAROLINA

CONTENTS

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ElliottDavis

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Thomas L. Wagner, Jr., CPA, State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of Lander University (the "University") as of June 30, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and auditing standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina.

In our opinion, based on our audits, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 11, 2001, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

These financial statements exclude the related entities described in Note 17 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organization project, the GASB is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Elliott Davis, LLP

September 11, 2001

Exhibit A

LANDER UNIVERSITY
BALANCE SHEET
June 30, 2001

ASSETS

CURRENT FUNDS	
Unrestricted	
Cash and cash equivalents	$ 4,407,419
Accounts receivable - Net	137,769
Interest receivable	41,973
Inventories - Net	172,230
Prepaid items	82,944
Due from other funds	
Unexpended plant	186,158
Total unrestricted	5,028,493
Restricted	
Cash and cash equivalents	27,681
Grants and contracts receivable	82,464
Due from related parties	63,858
Total restricted	174,003
Total current funds	$ 5,202,496

LIABILITIES AND FUND BALANCES

CURRENT FUNDS	
Unrestricted	
Accounts payable	$ 375,132
Accrued payroll and related liabilities	20,685
Accrued compensated absences and related liabilities	804,803
Student deposits	228,302
Deferred revenue	342,720
Due to other funds	
Loan	88
Agency	12,986
Fund balance	3,243,777
Total unrestricted	5,028,493
Restricted	
Accrued payroll and related liabilities	3,077
Fund balance	170,926
Total restricted	174,003
Total current funds	$ 5,202,496

(Continued)

Exhibit A

LANDER UNIVERSITY
BALANCE SHEET
June 30, 2001

ASSETS

LOAN FUNDS	
Cash and cash equivalents	$ 184,147
Interest receivable	1,019
Students notes receivable	1,185,684
Due from other funds	
Unrestricted current	88
Total load funds	$ 1,370,938
PLANT FUNDS	
Unexpended	
Cash and cash equivalents	$ 1,103,777
Interest receivable	2,812
Capital Improvement Bond proceeds receivable	4,181,288
Insurance recovery receivable	102,256
Total unexpended	5,390,133
Retirement of indebtedness	
Cash and cash equivalents	463,423
Investments	175,000
Interest receivable	9,157
Total retirement of indebtedness	647,580

LIABILITIES AND FUND BALANCES

LOAN FUNDS	
Fund balances	
US government grants refundable	$ 1,370,938
Total loan funds	$ 1,370,938
PLANT FUNDS	
Unexpended	
Due to other funds	
Current unrestricted	$ 186,158
Accrued payroll and related liabilities	2,089
Fund balances	
Unrestricted, designated	812,424
Restricted	4,389,462
Total unexpended	5,390,133
Retirement of indebtedness	
Accrued interest payable	80,287
Fund balance - Restricted	567,293
Total retirement of indebtedness	647,580

(Continued)

Exhibit A

LANDER UNIVERSITY
BALANCE SHEET
June 30, 2001

ASSETS		*LIABILITIES AND FUND BALANCES*	
PLANT FUNDS, Continued		**PLANT FUNDS, Continued**	
Investment in plant		Investment in plant	
Land and land improvements	2,535,822	Bonds payable	240,000
Leasehold improvements	65,979	Note payable	2,570,440
Buildings	51,266,477	Installment note payable	229,571
Equipment	2,931,243	Net investment in plant	57,359,544
Computer software	35,556		
Less: Accumulated amortization	(9,761)		
Library collection	3,529,649		
Construction in progress	44,590		
Total investment in plant	60,399,555	Total investment in plant	60,399,555
Total plant funds	$ 66,437,268	Total plant funds	$ 66,437,268
AGENCY FUNDS		**AGENCY FUNDS**	
Due from other funds		Deposits held for others	$ 30,002
Current unrestricted	$ 12,986		
Due from others	17,016		
Total agency funds	$ 30,002	Total agency funds	$ 30,002

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended June 30, 2001

	Current funds			Plant funds			Totals
	Unrestricted	Restricted	Loan funds	Unexpended	Retirement of indebtedness	Investment in plant	(Memorandum only)
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	$ 28,071,452	$ -	$ -	$ -	$ -	$ -	$ 28,071,452
Federal grants and contracts	-	2,033,095	-	-	-	-	2,033,095
State appropriations	-	1,571,887	-	-	-	-	1,571,887
State grants and contracts	-	150,534	-	-	-	-	150,534
Nongovernmental grants and contracts	-	66,228	-	-	-	-	66,228
Private gifts	-	958,143	-	-	-	104,811	1,062,954
US government advances	-	-	22,440	-	-	-	22,440
Interest income	-	-	10,255	34,731	166,599	-	211,585
Interest on student loans receivable	-	-	26,763	-	-	-	26,763
Reimbursement of previously canceled loans	-	-	53,501	-	-	-	53,501
Insurance recovery	-	-	-	102,256	-	-	102,256
Student fees	-	-	-	46,630	-	-	46,630
State Capital Improvement Bond proceeds	-	-	-	3,760,000	-	-	3,760,000
Retirement of indebtedness	-	-	-	-	-	265,127	265,127
Expended for plant facilities (including $236,589 charged to current funds expenditures)	-	-	-	-	-	383,920	383,920
Total revenues and additions	28,071,452	4,779,887	112,959	3,943,617	166,599	753,858	37,828,372
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general	20,967,609	4,676,800	-	-	-	-	25,644,409
Auxiliary enterprises	4,228,857	14,093	-	-	-	-	4,242,950
Loan cancellations and write-offs	-	-	87,373	-	-	-	87,373
Administrative and collection costs	-	-	18,506	-	2,189	-	20,695
Expended for plant facilities (including $395,204 of non-capitalized expenditures)	-	-	-	542,534	-	-	542,534
Retirement of indebtedness	-	-	-	-	265,127	-	265,127

(Continued)

Exhibit B

LANDER UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended June 30, 2001

	Current funds			Plant funds			Totals
	Unrestricted	Restricted	Loan funds	Unexpended	Retirement of indebtedness	Investment in plant	(Memorandum only)
EXPENDITURES AND OTHER DEDUCTIONS, Continued							
Interest on indebtedness	-	-	-	-	177,249	-	177,249
Amortization	-	-	-	-	-	7,111	7,111
Disposal of plant facilities	-	-	-	-	-	33,601	33,601
Total expenditures and deductions	25,196,466	4,690,893	105,879	542,534	444,565	40,712	31,021,049
TRANSFERS AMONG FUNDS							
Other additions/deductions							
Mandatory							
Principal and interest - Student housing	(2,592,623)	-	-	-	2,592,623	-	-
Loan fund matching grant	(7,480)	-	7,480	-	-	-	-
Principal and interest - Equipment	(74,544)	-	-	-	74,544	-	-
Renewals and replacements	-	-	-	30,000	(30,000)	-	-
Non-mandatory							
From Retirement of Indebtedness and Unexpended Plant Funds for Auxiliary Enterprise Operations	2,347,512	-	-	-	(2,347,512)	-	-
Transfers to unexpended plant funds for reserve account	(72,092)	-	-	72,092	-	-	-
Transfers to unexpended plant funds for plant projects	(101,825)	-	-	101,825	-	-	-
Total transfers among funds	(501,052)	-	7,480	203,917	289,655	-	-
Net increase (decrease)	2,373,934	88,994	14,560	3,605,000	11,689	713,146	6,807,323
FUND BALANCE, BEGINNING OF YEAR	869,843	81,932	1,356,378	1,596,886	555,604	56,646,398	61,107,041
FUND BALANCE, END OF YEAR	$ 3,243,777	$ 170,926	$ 1,370,938	$ 5,201,886	$ 567,293	$ 57,359,544	$ 67,914,364

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the year ended June 30, 2001

	Unrestricted	Restricted	Total
REVENUES			
Student tuition and fees	$ 10,028,504	$ -	$ 10,028,504
State appropriations	12,234,829	1,571,887	13,806,716
Federal grants and contracts	21,242	2,033,857	2,055,099
State grants and contracts	-	23,443	23,443
Nongovernmental grants and contracts	-	103,201	103,201
Private gifts	-	958,505	958,505
Interest income	8,884	-	8,884
Insurance recovery	6,310	-	6,310
Sales and services of auxiliary enterprises	5,345,575	-	5,345,575
Miscellaneous fines and fees	129,895	-	129,895
Other sources	296,213	-	296,213
Total current revenues	28,071,452	4,690,893	32,762,345
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instruction	9,845,147	593,627	10,438,774
Research	3,103	29,200	32,303
Public service	13,598	-	13,598
Academic support	1,629,649	42,386	1,672,035
Student services	2,735,802	29,721	2,765,523
Institutional support	2,762,600	4,426	2,767,026
Operation and maintenance of plant	3,108,353	29,262	3,137,615
Scholarships and fellowships	869,357	3,948,178	4,817,535
Total educational and general expenditures	20,967,609	4,676,800	25,644,409
Mandatory transfers			
For loan fund matching grants	7,480	-	7,480
For retirement of indebtedness	74,544	-	74,544
Total mandatory transfers	82,024	-	82,024
Total educational and general	21,049,633	4,676,800	25,726,433
Auxiliary enterprises			
Expenditures	4,228,857	14,093	4,242,950
Mandatory transfers for retirement of indebtedness	2,592,623	-	2,592,623
Total auxiliary enterprises	6,821,480	14,093	6,835,573
Total expenditures and mandatory transfers	27,871,113	4,690,893	32,562,006

(Continued)

LANDER UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the year ended June 30, 2001

	Unrestricted	Restricted	Total
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Nonmandatory transfers in	2,380,484	-	2,380,484
Nonmandatory transfers out	(206,889)	-	(206,889)
Excess (deficiency) of restricted receipts over transfers to revenues	-	88,994	88,994
Total other transfers and additions (deductions)	2,173,595	88,994	2,262,589
Net increases (decreases) in fund balance	$ 2,373,934	$ 88,994	$ 2,462,928

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted in the United States of America (GAAP) for all state governmental entities including colleges and universities. The financial statements of the University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*, as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows:

Reporting entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) <u>and</u> (1) it is able to impose its will on that organization <u>or</u> (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity unless the organization holds all of the following powers:

(1) Determines its budget without another government's having the authority to approve and modify that budget.
(2) Levies taxes or sets rates or charges without approval by another government.
(3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the University a primary entity.

(Continued)

Primary entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-30 of the Code of Laws of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University. Fifteen of its members are elected by the General Assembly (two from each Congressional district and three from the State at-large) and one member is appointed by the Governor. The Governor or his designee serves on the Board as an ex-officio member.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Basis of accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures are reported when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant and other capital assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment, library books and computer software; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

(Continued)

The University records receipts from operations of auxiliaries in unrestricted current funds as auxiliary enterprises revenue. Mandatory transfers from auxiliary enterprises revenue for debt service on bonds and notes payable are made from unrestricted current funds to the funds of the retirement of indebtedness plant funds subgroup and for repair and replacement reserve funds to unexpended plant funds.

Fund accounting - University funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The *Current Funds* group includes those economic resources, which are expendable for operating purposes to perform the primary missions of the University, which are instruction and performance of research or public service activities. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Unrestricted current funds include but are not limited to all funds received for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Restricted current funds are those available for financing operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Current funds revenues include (1) all unrestricted gifts, grants and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include resources that are restricted by external persons or agencies to transactions or purposes accounted for in other than current funds. Additional disclosures regarding revenue recognition are described elsewhere in this note under basis of accounting, gifts and other nonexchange transactions and deferred revenues. Unrestricted resources other than gifts and other nonexchange transactions are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

(Continued)

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing and student health services, bookstore, food services and vending. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was $1,752,797 at June 30, 2001.

The ***Loan Funds*** group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, collectibility reserves and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers. At June 30, 2001, the University had no donor-provided resources for loans.

The ***Plant Funds*** group consists of three self-balancing subgroups: unexpended plant funds, funds for retirement of indebtedness and investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets. The unexpended plant funds subgroup includes student fees specifically assessed for plant expansion and to provide for routine renewal and replacement of existing plant assets, debt related to unexpended resources and repair and replacement reserve funds. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The ***Agency Funds*** group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations and other groups directly associated with the University.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect cost recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 2001, there were no indirect cost recoveries.

(Continued)

Compensated absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave, and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in plant

Physical plant and equipment, except for equipment acquired under capital lease or installment purchase contract, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases and installment agreements is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land improvements and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Library books, periodicals, microfilms, and other library materials on computer data storage devices are recorded at cost when purchased or fair market value at the date of donation in the library collection account. Library book deletions are written off at year-end at average cost based on the actual number of volumes deleted. The costs of periodicals are written off at the end of their estimated life of five years.

Computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old date by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use is amortized on a straight-line basis over a five-year period.

(Continued)

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets, qualifying equipment and computer software with a unit value in excess of $5,000 and a useful life in excess of one year, and all library materials.

When plant assets other than library collection materials are sold, retired or otherwise disposed of, the carrying value at cost or fair market value at date of gift or the unamortized cost of computer software is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized interest

The University does not capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do not include such interest costs.

Deferred revenues

In unrestricted current funds, deferred revenues primarily consist of receipts for student tuition and fees and room and board collected in advance for the summer and fall academic terms not yet earned. If student financial aid collected exceeds tuition and fees, the University will issue student refunds. Revenues are recognized in the period in which the sessions are predominately conducted and services are provided or the semester for which the fee is applicable and earned.

Student deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Gifts and other nonexchange transactions

Nonexchange transactions involving financial or capital resources are transactions in which the University either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions the University engages in include “Voluntary nonexchange transactions” (certain grants and donations), and “Imposed nonexchange revenues” (fines and penalties).

(Continued)

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

a. The recipient has the characteristics specified by the provider.
b. The recipient has met the time requirements specified by the provider or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider.
c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

Gifts are a type of nonexchange transaction. Gifts include resources donated to the University for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current funds gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are promised or received (i.e. the earlier of when either the donor announces the gift or notifies the University of the gift and the promise is verifiable and the resources are measurable and probable of collection or the University receives the monies). Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current year and met all eligibility requirements. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., the earlier of when either the donor announces the gift or notifies the University of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the University receives the monies).

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenues by recipients. The University had no deferred revenues related to gifts and other voluntary nonexchange transactions at June 30, 2001.

Assets from imposed nonexchange revenues are recognized when an enforceable legal claim to the assets arise or when the resources are received, whichever occurs first.

Fund-raising costs

The costs of fund-raising activities are reported in the institutional support functional category and do not include management and general or other program costs of the University. The costs of incidental fund-raising activities conducted in conjunction with other program activities are not separately reported. Incidental fund-raising costs are included in the related program expenditures of the appropriate functional category.

Prepaid items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of credits on account for returned textbook inventories.

(Continued)

Cash and cash equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts with an original maturity of three months or less.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 15.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. The University reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

Inventories

Inventories, which consist of bookstore inventories for resale, are reported at the lower of cost or market. The cost of textbooks is reported on a weighted average basis while the cost of merchandise is reported on a first-in, first-out basis.

Information technology costs

Non-capitalizeable information technology (IT) costs are separately budgeted and accounted for in the institutional support functional classification. Certain IT costs (other than personal services and employer contributions) are allocated to the academic support functional classification based on the percentage of users in the area.

(Continued)

Intra-entity transactions and balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum only) columns

Amounts in the "Totals (Memorandum only)" column of the statement of changes in fund balances presents an aggregation of financial statement line items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

Reclassifications

The University, in prior years' financial statements, improperly reported a $175,000 investment as cash and cash equivalents. The June 30, 2001 statement reflects this amount in retirement of indebtedness plant funds as an investment.

NOTE 2 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5H of Part IA of the 2000-2001 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2001:

Original appropriation	$ 9,448,435
Appropriation reduction	(105,152)
State Budget and Control Board allocations	
Employee base pay increases and related employee benefits (Proviso 63C.9.)	262,653
For employer contributions (Proviso 72.22)	82,481
Health and dental insurance - Retirees	40,034
Deferred compensation 401(k) match (Proviso 72.44)	25,302
Appropriation allocations from the State Commission on Higher Education:	
Research initiative	180
From the Children's Education Endowment Fund For	
Palmetto Fellows Scholarship	158,333
Need-Based Grants	334,363
For Access and Equity Desegregation Funding (Proviso 5A.5.)	12,425

(Continued)

NOTE 2 - STATE APPROPRIATIONS, Continued

For Performance Funding (Proviso 5A.6.), including $806,070 from Capital Reserve funds and $728,006 from General Fund appropriations	1,534,076
For LIFE Scholarships (2000 Act 453)	945,935
From State Higher Education Matching Gift Fund for Academic Endowment Match	133,256
Academic initiative (Act A1 of 2001, Part 1A, Section 2)	950,000
Revised Appropriations - Legal basis	13,822,321
Accrued funding for net payroll accrual adjustments	(15,605)
State appropriations revenue - Accrual basis	13,806,716
Less: Higher Education Grant/Scholarship funding reported in restricted current funds	1,571,887
Funding reported in unrestricted current funds	$ 12,234,829

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In fiscal year 2001 and in prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup, as applicable. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 2001, follows:

Act	Total authorized	Amount drawn in prior years	Amount drawn in fiscal year ended June 30, 2001	Balance authorized June 30, 2001
111 of 1997	$ 3,325,000	$ 3,053,629	$ 68,187	$ 203,184
A28 of 1999	988,000	446,467	280,837	260,696
R453 of 2000	3,760,000	-	42,592	3,717,408
Total	$ 8,073,000	$ 3,500,096	$ 391,616	$ 4,181,288

The balances receivable are reported in the Unexpended Plant Funds subgroup.

NOTE 4 - BONDS PAYABLE

At June 30, 2001, bonds payable consisted of the following:

	Interest rate	Maturity date	Balance June 30, 2001	2001 maturities
Student and Faculty Housing Revenue Bond Series 1976A	8%	July 1, 2002	$ 240,000	$ 145,000

(Continued)

NOTE 4 - BONDS PAYABLE, Continued

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The bonds payable have priority over any other claims to this revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on these bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The bond resolution specifies the University must maintain an amount equal to the highest principal payment due in a debt service reserve fund and an amount equal to one-half the next principal payment due in a debt service account on deposit with the bond fiscal agent, the trust department of a financial institution. At June 30, 2001, the University had $175,000 on deposit in the debt service reserve fund and $77,500 on deposit in the debt service account.

Beginning July 1, 1985, certain of the bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the trustee. The premium (expressed as a percentage of the principal redeemed) for the bonds is 2%.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2001, are as follows:

Year ending June 30,	Principal	Interest	Total
2002	$ 155,000	$ 13,000	$ 168,000
2003	85,000	3,400	88,400
Total obligations	$ 240,000	$ 16,400	$ 256,400

The University reported interest expenditures of $19,200 related to the bonds for the year ended June 30, 2001.

NOTE 5 - NOTE PAYABLE

At June 30, 2001, the University had a note payable to the U.S. Department of Education (DOE) as follows:

	Interest rate	Maturity date	Balance June 30, 2001	2001 maturities
Student and Faculty Housing Revenue 1988 Series	5.5%	July 1, 2022	$ 2,570,440	$ 61,402

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing note except that debt service on this note payable to the DOE is subordinate to that on the University's student and faculty housing revenue bonds.

Semiannual payments of $102,660 including principal and interest are due on January 1 and July 1 each year.

(Continued)

NOTE 5 - NOTE PAYABLE, Continued

As required by the note agreement, the University must establish debt service and repair and replacement reserve accounts and deposit $25,665 semiannually into the debt service reserve account until $205,320 has been accumulated. Once the University has met the full debt service reserve requirement, it must deposit $30,000 annually into a repair and replacement reserve account until $300,000 has been accumulated. The debt service and repair and replacement reserves monies for this note are on deposit in State Treasurer accounts. At June 30, 2001 the University's debt service reserve account was fully funded. In the current year, the University transferred $102,092 into the repair and replacement reserve account, the required $30,000 -plus an additional $72,092. The cumulative balance at June 30, 2001 in the repair and replacement reserve account was $285,064, which was restricted for repairs and maintenance of facilities. The debt service reserve account and the repairs and replacement account are accounted for in the retirement of indebtedness and unexpended plant funds subgroups, respectively.

Amounts including interest required to complete payment of the revenue note obligations as of June 30, 2001 are as follows:

Year ending June 30,	Principal	Interest	Total
2002	$ 64,825	$ 140,495	$ 205,320
2003	68,440	136,880	205,320
2004	72,256	133,064	205,320
2005	76,284	129,036	205,320
2006	80,538	124,783	205,320
2007 through 2022	2,208,097	1,179,684	3,387,782
Total obligations	$ 2,570,440	$ 1,843,942	$ 4,414,382

The University reported interest expenditures of $142,230 related to the note for the year ended June 30, 2001.

NOTE 6 - INSTALLMENT NOTE PAYABLE

At June 30, 2001, the University had an installment note payable related to the purchase of computer equipment and software. Payments on the installment agreement are made monthly with interest rates of 5.1% and 6.77% for the computer equipment and software portions of the debt. Installment note expenditures for fiscal year 2001 were $74,544, of which $15,819 represented interest. The University transfers unrestricted current funds to the retirement of indebtedness funds subgroup to meet the current year debt service requirements and simultaneously records a reduction of the note payable in the investment in plan funds subgroup.

Amounts, including interest, required to complete payment of the obligation at June 30, 2001 are as follows:

Year ending June 30,	Principal	Interest	Total
2002	$ 62,369	$ 12,175	$ 74,544
2003	66,243	8,301	74,544
2004	70,362	4,181	74,543
2005	30,597	466	31,063
Total obligations	$ 229,571	$ 25,123	$ 254,694

(Continued)

NOTE 6 - INSTALLMENT NOTE PAYABLE, Continued

The installment note payable is collateralized by assets with a carrying value of $543,127, of which $392,735 is for computer software and $150,392 is for equipment.

NOTE 7 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, and dormitories) and equipment.

Future commitments for operating leases, having remaining noncancelable terms in excess of one year as of June 30, 2001, were as follows:

Year ending June 30,	Real property	Equipment
2002	$ 250,001	$ 62,216
2003	250,001	47,253
2004	1	26,248
2005	1	14,505
2006	1	8,428
2007 through 2046	40	806
Total minimum lease payments	$ 500,045	$ 159,456

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years 2003 through 2046. In the normal course of business, operating leases are generally renewed or replaced by other leases.

The University's noncancelable real property operating leases are payable on an annual basis and its noncancelable equipment operating leases are generally payable on a monthly basis. All of the University's noncancelable equipment operating leases are for copiers and postage meters. Lease payments include maintenance of the copiers and all supplies except paper. Future commitments for noncancelable equipment operating leases do not include tiered overage charges for copies in excess of the base amount.

The University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease has an annual rental rate of one dollar and expires June 30, 2046. The lessor may continue to use the property rent-free for three months each year. The University has incurred $65,979 of unexpended plant fund expenditures for this property, which is capitalized as leasehold improvements in the investment in plant subgroup.

The University entered into a ten-year real property operating lease agreement through the Office of Property Management for Greenwood High Apartments for the housing of University students. The annual lease rate is $250,000. The agreement expires July 31, 2003.

Total operating lease expenditures in 2001 were $250,590 for real property and $59,140 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 8 - NONMANDATORY TRANSFERS

As discussed in Note 5, student housing revenues pledged for debt service when collected are recorded as revenue in the unrestricted current funds and immediately transferred to the retirement of indebtedness plant funds subgroup. Once the University has met the full debt service reserve requirements, the DOE note agreement requires the University to fund a repair and replacement reserve, which is reported in the unexpended plant funds. The balance of pledged revenue collections remain in the debt service accounts of the retirement of indebtedness plant funds until the University requests the State Treasurer to transfer the balance into an account for housing auxiliary enterprise operations, which is reported in unrestricted current funds. The funds become available for transfer because debt service and minimum reserve requirements for debt service and repair and replacement as required by bond indentures, the DOE note agreement, and law, have been satisfied. In fiscal year 2001, the University made a nonmandatory transfer of $2,347,512 from the retirement of indebtedness plant funds subgroup to the unrestricted current funds to finance housing auxiliary enterprise operations.

The University also made nonmandatory transfers from unrestricted current funds to the unexpended plant funds subgroup as additional funding of the repair and replacement reserve account associated with the note payable to the DOE and for general maintenance and repair project funding in the amounts of $72,092 and $101,825, respectively.

NOTE 9 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

(Continued)

NOTE 9 - PENSION PLANS, Continued

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0% of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07%, which included a 2.52% surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2001, 2000, and 1999, were \$848,533, \$872,026 and \$840,227, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$16,893 in the current fiscal year at the rate of .15% of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14% of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50% of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5% of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82% , as for the SCRS, included the 2.52% surcharge. The University's actual contributions to the PORS for the years ending June 30, 2001, 2000, and 1999, were \$35,590, \$35,007, and \$34,134, respectively, and equaled the required contributions of 10.3% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$691 and accidental death insurance contributions of \$691 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

(Continued)

NOTE 9 - PENSION PLANS, Continued

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts, which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55% plus the retiree surcharge of 2.52% from the employer in fiscal year 2001.

Certain of the University's employees have elected to be covered under optional retirement plans. For the year ended June 30, 2001, total contribution requirements to the ORP were $166,218 (excluding the surcharge) from the University as employer and $132,094 from its employees as plan members. For years ended June 30, 2000 and 1999, employer contributions were $130,091 and $109,714 respectively and employee contributions were $103,383 and $87,190 respectively. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies. There were no payments for group life insurance coverage for these employees.

NOTE 10 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of $959,205 for the year ended June 30, 2001. As discussed in Note 8, the University paid $338,699 applicable to the 2.52% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 11 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

(Continued)

NOTE 11 - DEFERRED COMPENSATION PLANS, Continued

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to $300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than $20,000 as of July 1, 2000, are not required to contribute in order to receive the match. During the year ended June 30, 2001, the University made contributions to the accounts of eligible state employees of $42,093, including $25,302 from state appropriation funding sources.

NOTE 12- INVENTORIES

The University's bookstore inventory consisted of the following at June 30, 2001:

Textbooks - New	$ 23,232
Textbooks - Used	74,968
Merchandise	75,770
	173,970
Less allowance for obsolescence	1,740
	$ 172,230

The allowance for obsolescence is calculated as one-percent of inventory.

NOTE 13 - INTERFUND LIABILITIES AND BORROWINGS

The University primarily operates out of one cash account, which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. Individual interfund balances outstanding at June 30, 2001, were as follows:

	Receivable	Payable
UNRESTRICTED CURRENT FUNDS		
Loan funds	$ -	$ 88
Unexpended plant funds	186,158	-
Agency funds	-	12,986
Total unrestricted current funds	186,158	13,074
LOAN FUNDS		
Unrestricted current funds	88	-
UNEXPENDED PLANT FUNDS		
Unrestricted current funds	-	186,158
AGENCY FUNDS		
Unrestricted current funds	12,986	-
Total	$ 199,232	$ 199,232

NOTE 14 - ACCOUNTS, STUDENT LOAN NOTES, AND OTHER RECEIVABLES

The University has the following accounts receivable and student loans receivable in its various fund groups and subgroups:

UNRESTRICTED CURRENT FUNDS	
Accounts receivable	
Student tuition and fees	$ 169,306
Contract courses	13,512
Other contracts	8,858
Rental income	20,504
Insurance recovery	6,310
Other	2,681
	221,171
Less: Allowance for doubtful accounts	83,402
Accounts receivable - Net	$ 137,769
LOAN FUNDS	
Student notes receivable	
Perkins loan program	$ 1,397,224
Less: Allowance for doubtful accounts	211,540
	$ 1,185,684

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios.

NOTE 15 - CONSTRUCTION COSTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities. As some of these projects involve replacements or repairs of existing facilities, not all costs are expected to be capitalized upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects in varying phases over the next four years at an estimated total cost of $1,225,000. As of June 30, 2001, approximately $44,600 has been expended for these projects.

During the year ended June 30, 2001, the University capitalized $147,330 in investment in plant funds subgroup for additions to buildings and equipment. Also, the University recorded $395,204 in noncapitalized expenditures in unexpended plant funds subgroup during the same period.

NOTE 16 - DEPOSITS AND INVESTMENT

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited and invested with financial institutions and external debt trustees with the approval of the State Treasurer. The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

Balance sheet		Footnotes	
Cash and cash equivalents	$ 6,186,447	Cash on hand	$ 6,500
Other investment	175,000	Deposits held by State Treasurer	6,095,875
		Other deposits	84,072
		Other investments	175,000
	$ 6,361,447		$ 6,361,447

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 5, the University must maintain debt service reserve and repair and replacement reserve accounts for its DOE note payable. At June 30, 2001, the retirement of indebtedness plant funds include $205,320 restricted cash for the debt service reserve and the unexpended plant funds include $285,064 restricted cash for the repair and replacement reserve as required by the note agreement. In addition, the retirement of indebtedness plant funds include $189,760 restricted for July 1, 2001 principal and interest payments. This restricted cash is held by the State Treasurer.

Other deposits

As disclosed in Note 4, the University must maintain debt service reserve and principal accounts for the bonds payable. At June 30, 2001, the retirement of indebtedness plant funds include $77,500 restricted cash for principal payment as required by the bond indentures. The restricted cash is on deposit with financial institutions. The total debt service deposits of $77,500 are in credit risk category 3 because they are uncollateralized but are invested in a pooled fixed income fund held by the bond trustee, the trust department of a financial institution, which is collateralized by government securities invested in the name of the financial institution.

(Continued)

The University's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

(1) Insured or collateralized with securities held by the entity or by it's agent in the entity's name. (Not held by the bank.)
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name
(3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the entity's name.)

A summary of June 30, 2001, bank balances by risk category follows:

	Categories			Bank	Book
	1	2	3	balance	balance
Bank deposits	$ 162,648	$ -	$ 84,072	$ 246,720	$ 84,072

Investments

Legally authorized investments vary by fund, but generally they include obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, certain rated obligations of corporations within the United States, and collateralized repurchase agreements.

There are three categories of credit risk that apply to the University's investments.

(1) Insured or registered or for which the securities are held by the University or the University's agent in the University's name.

(2) Uninsured and unregistered for which the securities are held by the financial institutions' trust department or the University's agent in the University's name.

(3) Uninsured and unregistered for which the securities are held by the financial institution.

Balances held in each category are as follows:

	Categories			Carrying	Fair
	1	2	3	amount	value
U.S. government security	$ 175,000	$ -	$ -	$ 175,000	$ 174,963

As disclosed in note 4, the University must maintain an amount equal to the highest principal payment due on bonds payable with the bond fiscal agent, the trust department of a financial institution, in a debt service reserve fund. The investment is reported in the University's Retirement of Indebtedness Plant funds.

Investments are reported at fair value, except that U.S. Treasury obligations that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

(Continued)

NOTE 16 - DEPOSITS AND INVESTMENT, Continued

During the year ended June 30, 2001, the University had no realized or unrealized gains or losses associated with investments.

At June 30, 2001, the University's Plant funds had restricted assets as follows:

Fund	Cash and cash equivalents	Investments
Unexpended plant	$ 1,103,777	$ -
Retirement of indebtedness plant	463,423	175,000
	$ 1,567,200	$ 175,000

NOTE 17 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include The Lander Foundation (the "Foundation") and the Lander Alumni Association (the "Alumni Association").

The Foundation is a separately chartered entity organized exclusively to promote the development and welfare of Lander University in its educational purposes. The activities of the Foundation are governed by its board of directors. The Foundation's financial statements were audited by independent auditors retained by them.

The Alumni Association, a small nonprofit organization, was established by alumni to promote academic improvements, to assist in scholarship programs, to further the interests of Lander University, and to promote among its present and former students and friends a good fellowship and loyalty. The Alumni Association's financial statements were internally compiled by the Association.

The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement 14, management annually reviews its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

Various transactions occur between the University and these related entities. The amounts receivable from the related parties have been separately disclosed in the restricted current funds assets. During the year ended June 30, 2001, the University received approximately $658,000 from the Foundation and approximately $17,000 from the Alumni Association for restricted scholarships. The University also received approximately $283,000 from the Foundation for various approved programs related to academic and administrative areas within the University. These funds are reported in restricted current funds as private gifts. At June 30, 2001, the University had a receivable of $63,858 from the Foundation. At June 30, 2001, the University had a $63,858 receivable from the Foundation, reported in restricted current funds.

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various state agencies.

Services received at no cost from state agencies include maintenance of certain accounting records by the Comptroller General; banking, note trustee, and investment services from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, and insurance coverage. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2001 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year. As subrecipient, the University received federal grant funds from other State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The South Carolina Department of Revenue is a defendant in a class action lawsuit challenging the constitutionality and administration of the State's Debt Setoff Act. An order was issued in February 2000 finding that numerous state agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtor's income tax refunds. However, an appeal and other proceedings are pending. The University, while not named as a defendant in the lawsuit, collected debts pursuant to the Debt Setoff Act. If the order is upheld, the loss could be $92,382 to the University. In such a case, the University would seek collection from the original debtors.

In prior years, the University determined that the science wing of the old main building has structural defects in the bricks. The University informed the performance bond company (because the contractor could not be reached) and contracted for engineering services to determine the extent of the problems and the costs of correcting them.

During the year ended June 30, 2001, funds were included in the 2001 Capital Improvement Bond for this project. On the advice of the South Carolina Office of State Engineer, the University does not intend to pursue this matter with the performance bond company.

The various federal programs administered by the University for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 20 - RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The University paid and recorded expenditures of approximately $199,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded.

At June 30, 2001, there were no employees eligible for TERI who had not elected to participate in the program.

NOTE 21 - RISK MANAGEMENT

Insurance coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all such risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

(Continued)

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered infirmaries.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from dishonest or fraudulent acts, limited to $100,000 for dishonesty, $50,000 for forgery or alteration, and $4,000 from theft, disappearance, and destruction. The University also obtains coverage through a commercial insurer for inland marine insurance for musical instruments loaned out to students and for medical insurance covering student athletes.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted and restricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a state or commercial insurer.

Self-insurance

The University has elected not to obtain business interruption insurance on its housing operations, and auxiliary enterprise. The University believes the risk of loss is remote and it is more economical to manage such risks internally.

Revenues and expenditures for 2001 related to housing operations were $2,646,420 and $1,815,831, respectively.

The University is unable to estimate lost revenues, the cost of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. However, the University estimates that it would be able to house displaced students in other University operated housing facilities in the event of a loss.

(Continued)

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors.

In management's opinion, claims losses in excess of insurance coverage are unlikely. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end.

NOTE 22 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments,*" and Statement No. 35, "*Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities.*" These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Thomas L. Wagner, Jr. CPA, State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the basic financial statements of Lander University as of and for the year ended June 30, 2001, and have issued our report thereon dated September 11, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal control over financial reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor and of the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLP

September 11, 2001